I. Entry of this paper is proper

A. Final rejection is premature

As discussed in the accompanying Request for Withdrawal of Finality, final rejection is premature. Entry of this paper, and full consideration, is warranted.

B. Even if finality is maintained, entry under Rule 116 is proper

The second Office Action of (January 29, 2003) raises a number of new issues that were not touched upon in the first Office Action (January 17, 2002), and Applicant responds to them at the earliest possible point. For example, there was no explanation in the first Action of how a single lease in Little could correspond to the two "distinct" leases in the claims. That explanation was first made in the Action of January 2003 (see pages 36-37). Without that explanation, Applicant could not have reasonably understood how two "distinct" leases recited in the claims could possibly correspond to the single lease described in Little. That information was not available to Applicant until the second Action, and Applicant has now responded at the first available opportunity. Accordingly, entry of this amendment is proper.

II. Amendments to Specification

The amendments to the specification merely conform the specification to the drawings as originally filed. The two paragraphs add no new matter.

III. Claims 1-27

Page 3 of the January Office Action discusses claim 2 with respect to the Little article. Claim 2 recites as follows:

> 2. A method, comprising the steps of:
> leasing a space from a landlord to a tenant under a space lease;
> leasing improvements to the space to the tenant under an improvement lease distinct from the space lease, the improvements lease being structured together with the space lease to support an accounting conclusion that the space lease and the improvements lease are to be considered together as a single lease and classified as an operating lease.

A. Claim 2 recites two "distinct" leases. In contrast, as admitted in the Office Action, Little shows only a single lease.

Claim 2 recites two "distinct" leases. Page 36 of the January 2003 Office Action concedes that Little's lease is viewed as "a" single lease, but fails to even attempt to show that Little's single lease could ever be viewed as two "distinct" leases. Instead, page 36 of the January 2003 Office Action explains that there may be two or more assets leased from a landlord to a tenant under a single lease. But a lease and the assets leased under the lease are different things, and the observation in the Office Action is irrelevant.

Those of ordinary skill in the art understand the language "two 'distinct' leases" as requiring some distinction between the two leases.[1] For example, the specification describes the following example characteristics, some combination of which might lead to a conclusion that two leases are "distinct:"

1. Two "distinct" leases are typically embodied in two separate documents. For example, Fig. 1 is an example term sheet for a tenant improvements lease. A "distinct" lease is typically embodied in an entirely distinct lease agreement (element 106; see page 7, line 25 to page 8, line 2). There is nothing in Little to suggest that the parties would sign two distinct lease contracts.
2. If there are two "distinct" leases, breach of one lease contract results in the termination of that contract, but the obligations of the parties to fully perform under the other lease contract continue (unless there is explicit language to the contrary in one of the lease contracts). For example, in a typical space lease, if a tenant fails to pay the rent for the space lease, the landlord may terminate the lease: the tenant is evicted from the space, and the tenant's obligation to pay rent terminates. However, in some embodiments of Applicant's invention, breach of one lease is confined to only that lease, and the other does not terminate. For example, if the tenant stops paying rent on the space and is evicted under the space lease, the obligation to pay rent under the tenant improvements lease may continue under the triple-net "hell-or-high-water" provision of the improvements lease (page 9, line 30 to page 10, line 8) ("[Improvements lease] 100 may provide that rent 124 will not be excused for any termination, expiration, surrender, cancellation, amendment, modification, restatement, extension or supplement to occupancy lease 106"). When two leases have independent termination-for-breach provisions, one of ordinary skill would recognize that there are two "distinct" leases.

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[1] Claim terms must be given their broadest reasonable interpretation consistent with the specification. "The words of a claim must be given their plain meaning. In other words, they must be read as they would be interpreted by those of ordinary skill in the art." MPEP § 2111.01.

In contrast, where there is one lease, a tenant's breach of that single lease allows the landlord to terminate that entire lease (unless there is explicit contract language to the contrary). But a tenant's breach does not give the landlord the opportunity to evict the tenant from part of the premises but continue to demand rent for the other. If either party breaches any provision of Little's lease, the non-breaching party may terminate the entire lease. But no party can ever divide the single lease of the various components of the lease as proposed in the Office Action.

3. Two "distinct" leases might involve two different landlords. For example, in one typical embodiment of Applicant's invention, the space is leased from one landlord (104), and the improvements from a completely different landlord (special purpose entity 110). Little never suggests that there is more than one landlord involved.

4. Two "distinct" leases might specify different events of breach, or different mechanisms for cure. For example, a typical space lease terminates if the building burns down. However, in some embodiments of Applicant's invention, the tenant's obligation to pay rent under the improvements lease continues under the "triple net hell-or-high-water" provision. Little never discusses two "distinct" leases for the same property that differ in any similar way.

5. Two "distinct" leases might have different provisions regarding maintenance obligations. For example, the space lease may place significant restrictions on the tenant's right to modify the building, while the improvements lease may give the tenant absolute freedom to modify them, or even destroy them, so long as the tenant continues to pay the rent. Little never discusses two "distinct" leases for the same property that differ in this way.

6. Two "distinct" leases might allocate risks differently. For example, one lease might allocate all risks for environmental contamination and Americans with Disabilities Act violations to the landlord, and the other to the tenant. Little never discusses two "distinct" leases for the same property that differ in this way.

Applicant's specification discusses a number of other characteristics that might define two "distinct" leases. None are discussed in Little.

The Office Action explains how Little's single lease might cover multiple components of a single leased premises. But this is entirely irrelevant. As the Office Action itself concedes, Little proposes to lease all of those constituent parts under "a" single lease (emphasis in Office Action, page 36).

Claim 2 recites two "distinct" leases. For any one piece of property, Little discusses only "a" lease. Claim 2 is not anticipated by Little.

B. Leasing of tenant improvements is not inherent

At page 36, the January 2003 Office Action asserts that "It would have to be inherent that Synthetic leases to finance corporate acquisition and expansion and to build to suite retail office can be interpretive as two distinct leases considered together in a single lease."

To meet the MPEP's minimum *prima facie* requirements for a § 102 rejection based on "inherency" – for a rejection to exist at all – an "inherency" rejection must comply with MPEP § 2112:

> **2112 Requirements of Rejection Based on Inherency; Burden of Proof**
> **EXAMINER MUST PROVIDE RATIONALE OR EVIDENCE TENDING TO SHOW INHERENCY**
>
> The fact that a certain result or characteristic may occur or be present in the prior art is not sufficient to establish the inherency of that result or characteristic. ....
>
> "In relying upon the theory of inherency, the examiner must provide a basis in fact and/or technical reasoning to reasonably support the determination that the allegedly inherent characteristic necessarily flows from the teachings of the applied prior art." *Ex parte Levy*, 17 USPQ2d 1461, 1464 (Bd. Pat. App. & Inter. 1990) (emphasis in original) (... The Board reversed on the basis that the examiner did not provide objective evidence or cogent technical reasoning to support the conclusion of inherency.).

In contrast, the comments on claim 2 at pages 3 and 36 provide no such "basis in fact and/or technical reasoning." Page 36 merely states that some fact is believed to be inherent, without explaining why no alternative is possible. To support the purported inherency, the Office Action would have to (a) show some set of circumstances in which the applicable legal test (or some test drawn from some discipline) would conclude that there are two "distinct" leases, (b) that the same set of circumstances would support a conclusion of "a single lease," and (c) that this circumstance is "necessary" in Little. No such showing is attempted in the Office Action. For this reason, the rejection is incomplete, and final rejection is premature.

Second, alternatives exist, and thus inherency is impossible. For example, the Background to this application provides the following (specification, page 1, lines 11-13):

> A tenant may finance its tenant improvements by spending its own cash or borrowing from a bank or other debt facility.

Once the tenant spends its own cash to install tenant improvements, the tenant owns the tenant improvements. In this case, Little's synthetic lease will cover only the space. The improvements will not be covered by any lease, let alone a "distinct" improvements lease.

Two "distinct" leases are not inherent in Little, and no attempt to show inherency is present in the second Office Action. No rejection exists, and none could be raised based on inherency.

C. The portion of Little relied on to show a "lease" of tenant improvements shows exactly the opposite

Page 36 of the Office Action points to page 2, paragraph 7 of Little to show a "lease," or at least "a stream of payments from lessee to leaser [sic] for acquisition installation, upfit and/or construction." Page 2, lines 31-37 of the Little reference read as follows:

> **Reimbursement of Construction Costs**
>
> Typically, the lessee is responsible for the acquisition, installation, upfit and/or construction of the property. The lessee is reimbursed for acquisition, construction, and other costs by the lessor through a disbursement procedure comparable to that used in a traditional lending arrangement. The lessor's advances to the lessee are funded through a combination of equity investments and loans obtained by the lessor.

"Lessor" is essentially a synonym for "landlord." "Lessee" is essentially a synonym for "tenant." The only flow of funds mentioned in this paragraph is a "reimbursement" or "advance" that flows from the "lessor" to the "lessee," from landlord to tenant. However, a "lease" requires payments from the lessee to the lessor, that is, from the tenant to the landlord. Little's payment from the landlord to the tenant is not a "lease" of the assets discussed in this paragraph.

Thus, claim 2 distinguishes Little, and is patentable over that reference.

Dependent claims 2-27 are allowable for the same reasons discussed above with respect to independent claim 2 from which they depend. These claims also recite additional patentable features.

D. New reliance on inherency in the second Office Action renders finality premature, for two separate reasons

The second Office Action introduces two new grounds of rejection. The second Office Action is the first to rely on "inherency" for two limitations of claims 1, 2 and 60, (a) two "distinct" leases, and (b) any lease of tenant improvements. The first Office Action relied on some undesignated explicit disclosure (at least it certainly made no showing of inherency). If the first Office Action intended to rely on inherency, it did not make the showings required under

MPEP § 2112, and the first Office Action to be complete (in this case, the second Office Action) cannot be made final. If the first Office Action relied on explicit disclosure, then the shift to inherency is a substantial shift to a "new ground of rejection." *E.g., In re Ansel*, 1988 WL 63291 (Fed. Cir. 1988) (changing from a three-paragraph obviousness rejection to a one-reference rejection is a "new ground" of rejection). Claims 1, 2 and 60 are unamended. A new ground of rejection of three unamended claims renders final rejection premature.

Second, the first Office Action failed to explain the basis for the rejection – there was no explanation of the correspondence between the claim language "two 'distinct' leases" and the reference.[2] Applicant was left with no reasonable way to understand the claim construction assigned by the Examiner or to understand the "pertinence" of the Little reference. An applicant ought not be prejudiced by an examiner's failure to "clearly explain" the "pertinence" of a reference. The second Office Action confirms that no reasonable applicant could possibly have made such a determination: as discussed in sections III.A and III.C, the constructions given to the claim terms "lease" and "distinct lease" are completely foreign to the art. The second Office Action is the first that makes a showing that is sufficiently detailed to allow any response. Thus, the second Office Action is not properly final.

E. Continued reliance on Official Notice renders the rejections ineffective, and prevents this Office Action from being made final

The continued reliance on Official Notice in this Office Action is impermissible, and continued reliance on Official Notice properly traversed renders finality premature. In the prior paper, Applicant noted the rather extraordinary over-reliance on Official Notice exhibited in the first Office Action (see Response filed June 27, 2002, page 8, last full paragraph). Applicant expressly traversed all use of Official Notice, and made "a demand for evidence made as soon as

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[2] 37 C.F.R. § 1.104(c)(2) reads as follows

> "When a reference is complex or shows or describes inventions other than that claimed by the applicant, the particular part relied on must be designated as nearly as practicable. The pertinence of each reference, if not apparent, must be clearly explained and each rejected claim specified."

Rule 104(c)(2) raises two separate requirements, (a) that the "particular part" of the reference be designated, and (b) that the "pertinence ... must be clearly explained." The first Office Action failed to comply with the second requirement.

practicable during prosecution" as required by MPEP § 2144.03. Applicant performed all necessary steps that were required to overcome the use of Official Notice.

In response, the second Office Action concludes with this paragraph:

> 10. Note is taken by the examiner that should the applicant find objectionable any statement made herein by the examiner regarding inherency, implicitness, obviousness, or Official Notice, Applicant can make a proper challenge to those statements only by providing adequate information or argument so that on its face creates a reasonable doubt regarding the circumstances justifying those statements: a simple response requesting a reference without doing so, or a response that fails to logically refute the basic assumptions underlying the justification, will result in an improper and failed challenge and those unchallenged statements will remain the record of the case. Applicants must seasonably challenge those statements in the first response following an Office Action. If an applicant fails to do so, his right to challenge them is waived.

Applicant has spoken today by telephone with Magdalen Greenlief in the Office of the Deputy Assistant Commissioner for Patent Examination Policy. Ms. Greenlief states that no examiner is authorized to make the statements set forth in the above paragraph, and that the previous paragraph misstates the law. To traverse an assertion of Official Notice, all an Applicant is required to do is to state that Official Notice is traversed. In response to that statement, an examiner is obligated to provide a reference, an affidavit, or an allowance. An Applicant has no duty whatsoever to "provid[e] adequate information or argument ... that on its face creates a reasonable doubt regarding the circumstances justifying those statements."

The following statements of the law are binding on the Examiner:

1. 37 C.F.R. § 1.104(d)(2): When an examiner wishes to base a rejection on facts not in the record, he "must" support his assertions "when called for by the applicant." Official Notice may be challenged by mere request.
2. MPEP § 2144.03, discussing traverses of Official Notice or "well known" prior art: "A seasonable challenge constitutes a demand for evidence made as soon as practicable during prosecution." MPEP § 2144.03 also states, "the facts must be supported, when called for by the applicant, by an affidavit from the examiner." Official Notice may be challenged by mere "demand" or "calling for" support.

Applicant directly and seasonably challenged all reliance on Official Notice in the first Office Action (Response of June 17, 2002, page 8, lines 18-28), renews those challenges here, and challenges all new reliance on Official Notice in the second Action. The examiner is required to come forward with references or an affidavit, or withdraw all rejections that rely on Official Notice.

Applicant traverses the following assertions of Official Notice with particularity:

"the improvements have been constructed and are owned by the landlord, the tenant [or lessee] or jointly by landlord and tenant [or lessee]; and further comprising the step of conveying or leasing the improvements to the special purpose entity before or concurrently with entry into the improvements lease." (Claims 13, 41, 68, 82, 111)

"equity and/or debt investments by the landlord in a plurality of special purpose entities owned by the landlord, each special purpose entity owning improvements for lease to a corresponding tenant, are cross-collateralized." (Claims 14, 42, 112)

"equity and/or debt investments by the landlord in a plurality of special purpose entities owned by the landlord, each special purpose entity owning improvements for lease to a corresponding tenant, are not cross-collateralized." (Claims 15, 43, 114)

"the improvements being financed by debt issued by the special purpose entity, the debt being secured [at least in part] by a lien on the improvements." (Claims 16, 99)

"the improvements being financed by debt issued by the [tile – sic] special purpose entity, the debt not being secured by a lien on the improvements. (Claims 17, 83)

"the special purpose entity is a limited liability company, grantor trust, business trust, corporation, limited partnership, or other business association." (Claims 18, 44, 84, 85, 86, 100)

"the special purpose entity has no ownership interest in any real property that includes the space." (Claims 19, 45, 70, 87)

" rent payments under the improvements lease have a present value at least equal to a value [or cost] of the [or "tile" – sic] improvements at a time of commencement of the improvements lease." (Claims 20, 94, 115)

"upon an event of default under the improvements lease, the tenant [or lessee] is obligated to purchase the improvements from the special purpose entity for a stipulated amount." (Claims 27, 52, 73, 92, 113)

"the improvements being off-balance-sheet for the tenant." (Claims 21, 46, 71, 88, 116)

"the improvements being off-balance-sheet for the tenant [or lessee], financing for the improvements being related to the cost of fund of the tenant [or lessee]." (Claims 21, 46, 71, 88)

"financing for the improvements is provided by an entity other than the tenant." (Claims 22, 47, 89, 101)

"rent payments under he improvements lease are secured, in full or in part, by a personal or corporate guaranty or by a letter of credit of the tenant." (Claims 24, 49)

"entry by the tenant [or lessee] into an obligation to construct the improvements and to assume costs associated with the construction." (Claims 23, 48, 72, 117)

"the space is one of a plurality of spaces of a building divided for lease to a plurality of tenants, and the tenant is one of the plurality of tenants." (Claims 26, 51, 91)

"the improvements are financed by debt issued by the special purpose entity, the debt being non-recourse against the special purpose entity, the landlord and the improvements." (Claims 32, 80)

"the debt is secured by a rent obligation of the tenant under a lease of the improvements." (Claim 33)

"the rent payments under the improvements lease have a present value at least equal to a value of the improvements at a time of commencement of the improvements lease." (Claim 34)

"the improvements lease is structured together with the space lease to support an accounting conclusion that the two leases are to be considered together as a single lease, classified as an operating lease." (Claim 35, 95)

"a building in which the space is located is encumbered by a mortgage; and the step of entry by the lender to the special purpose entity and a mortgage of the mortgage into an inter-creditor agreement, each waiving any interest in the other's collateral." (Claims 12, 40, 77, 110)

"the special purpose entity owning the lease of the leased interest, development of an asset underlying the leased interest being financed by debt issued by the special purpose entity, the debt being non-recourse against the special purpose entity, the landlord and the asset." (Claim 56)

"the interest leased is an interest in improvements to a shorter-lived asset and further comprising the step of leasing a longer-lived asset to the tenant, rent payments under the lease of the shorter lived asset having a present value at least equal to a cost of the shorter-lived asset at a time of commencement of the lease of the shorter-lived asset; and the lease to the shorter-lived asset being structured together with the lease to the longer-lived asset to support an accounting conclusion that the two leases are to be considered together as a single lease and classified as ail [sic] operating lease." (Claim 57)

"the debt is secured by a triple-net absolute rent obligation of the tenant under a lease of the improvements." (Claim 59)

"the shorter-lived asset having a present value at least equal to a cost of the shorter-lived asset at the time of commencement of the lease of the shorter-lived asset." (Claim 60)

"the longer-lived asset is a space in a building; and the shorter-lived asset is tenant improvements to the space." (Claim 61)

"the improvements are owned by a special purpose, entity, being a legal entity owned by a landlord of the space." (claim 62)

"rent payments under the improvements lease are fully tax deductible to the lessee." (Claim 64, 79)

"the building is divided for lease to multiple lessees." (Claim 66)

"the landlord owns a plurality of special purpose entities, each owning improvements for lease to a lessee." (Claim 69)

"the interest is a possessory interest in improvements to the space, the space being leased to the tenant under a separate lease" (Claim 94)

"at least 10% of capitalization for the special purpose entity is contributed by the landlord." (Claims 38, 97)

"a majority of the loan to the special purpose entity is supplied by a party other than the landlord, and the landlord owns a participation in the loan made to the special purpose entity." (Claims 11, 39, 98, 109)

"financial statements of the special purpose entity are consolidated with financial statements of the landlord" (Claim 78)

a computer "programmed to store information on a plurality of tenant improvement loans closed between tenants and landlords, and to analyze this information" (Claims 30, 55)

The continued reliance on Official Notice, after a proper traverse in the previous Response, renders the finality of the second Office Action premature. No further rejection may rely on unsupported Official Notice.

F. Claims 1 and 3-27

Claim 1 is independent, and recites "distinct" space and improvements leases. Claim 1 is patentable for the same reasons discussed above in connection with claim 2.

Claims 3-27 are dependent on claim 2, and patentable therewith, and recite further distinctions patentable over the art.

IV. Claim 28

Claim 28 is discussed at pages 32-33 and 37 of the second Office Action. Claim 28 recites as follows:

> 28. A computer, programmed:
>
> to solicit proposals from tenants for financing for tenant improvements to spaces leased by the respective tenants under respective space leases, each proposal offering terms for lease of tenant improvements to the corresponding space under an improvements lease distinct from the corresponding space lease,

each improvements lease to be structured together with the corresponding space lease to support an accounting conclusion that the space lease and improvements lease are to be considered together as a single lease and classified as an operating lease; and

to solicit offers of financing from lenders to the tenants' proposals, and notify the respective tenant and lender when an offer matches a proposal.

A. The Office Action makes no comparison of this claim to the prior art

The Office Action concedes that no reference teaches an "improvements lease to be structured together with the corresponding space lease to support an accounting conclusion that the space lease and improvements lease are to be considered together as a single lease and classified as an operating lease." Action of January 29, 2003, page 32, lines 15-17. The Office Action then continues:

> Weatherly disclose a computer, programmed to solicit proposals from tenants for financing for tenant improvements to spaces leased by the respective tenants under respective space leases, and to solicit offers of financing from lenders to the tenants proposals, and notify the respective tenant and lender when an offer matches a proposal.

Applicant respectfully observes that even if Weatherly were to disclose the subject matter discussed in the Office Action, this is entirely irrelevant to the portion of claim 28 that is concededly absent from Little.

No rejection of claim 28 as been raised.

B. No credible "motivation to combine" has been shown

Applicant traverses the rejection of claim 28, because no credible "motivation to combine the references" has been shown. As the Office Action itself concedes (second office Action, page 35, lines 10-11), Little's synthetic lease provides that the lease payments are fully deductible (100%) by the tenant. It is implausible that the combination could provide deductions that exceed 100%.

If any rejection is to be maintained, Applicant requests some showing that the combination of Weatherly and Little produces any tax deduction that is not available under Little alone. In absence of such a showing, the rejection of claim 28 based on the combination of Little and Weatherly may be withdrawn. Further, all other rejections relying on a combination motivated by a tax deduction in excess of Little's 100% may be withdrawn.

C. Claim 28 recites two "distinct" leases

Claim 28 recites "distinct" space and improvements leases. Claim 28 is patentable for the same reasons discussed above in section III.A (page 3, above).

D. Claims 29-30

Claims 29-30 are dependent on claim 28, and patentable therewith.

V. Claims 1, 4, 31-55, 64, 79, and 104

A. Claim 31

Claim 31 is discussed at pages 4-5 and 37-38 of the second Office Action. Claim 31 recites a special purpose entity (SPE) that is related to the landlord for both tax and accounting purposes:

> 31. A method, comprising the steps of:
> leasing a space to a tenant; and
> leasing improvements to the space from a special purpose entity to the tenant, a landlord of the space being the owner of, or lessor of the tenant improvements to, the special purpose entity under tax accounting rules, financial statements of the special purpose entity being consolidated with financial statements of the landlord, rental payments under the improvements lease being fully tax deductible to the tenant.

At page 38, the Second Action compares the first underlined portion of claim 31 to Little's mention of tax accounting rules at page 1, lines 34-35, which reads as follows:

> A synthetic lease is a financing arrangement that is treated as a lease for financial accounting purposes and a loan for Federal income tax purposes.

The claim recites a particular relationship between the landlord and the SPE. Page 1, lines 34-35 of Little describes benefits of a lease to the tenant, and makes no mention of either the landlord or the SPE, let alone any mention of the particular relationship recited in claim 31. Page 1, lines 34-35 of Little do not anticipate the first underlined portion of claim 31.

The second Office Action indicates that the second underlined portion of claim 31 is thought to correspond to page 1, lines 28-30 of Little. This portion of Little reads as follows:

> SYNTHETIC LEASES HAVE BECOME one of the hottest financing techniques for credit tenants. This type of "off-balance sheet" financing has been used to finance corporate acquisitions and expansion.

Claim 31 again recites a particular relationship between a landlord and an SPE. Page 1, lines 28-30 of Little describes other properties of a lease, and makes no mention of either the landlord or the SPE, let alone any mention of the particular relationship recited in claim 31. Page 1, lines 28-30 of Little do not anticipate the second underlined portion of claim 31.

Thus, claim 31 is not anticipated by Little.

B. Claims 1, 4, 32-52, 64, 79, and 104

Claims 1, 4, 64, 79, and 104 recite similar limitations, and are patentable for similar reasons. Dependent claims 32-52 are dependent on claim 31 and patentable therewith, and recite further patentable features.

VI. Claims 53-55

A. Claim 53

Independent claim 53 is discussed in relation to the Little article at page 16 of the second Office Action. Claim 53 recites as follows:

> 53. A computer, programmed:
>
> to solicit proposals from tenants for financing for tenant improvements to spaces leased by the respective tenants under respective space leases, each proposal offering terms for lease of tenant improvements to the corresponding space under an improvements lease distinct from the corresponding space lease, each improvements lease providing for lease of tenant improvements from a special purpose entity to the tenant, a landlord of the space being the owner of, or lessor of the tenant improvements to, the special purpose entity under tax accounting rules, financial statements of the special purpose entity to be consolidated with financial statements of the landlord, rent payments under the improvements lease to be fully tax deductible to the tenant;
>
> to solicit offers of financing from lenders to the tenants' proposals, and notify the respective tenant and lender when an offer matches a proposal.

B. Claim 53 recites two "distinct" leases

Claim 53 recites "distinct" space and improvements leases, and is patentable for reasons analogous to those discussed above in connection with claim 2.

C. Claim 53 recites a particular relationship between the landlord and SPE

Independent claim 53 recites the same limitations as those discussed above in connection with claim 31 at section V.A (page 13 of this paper), and is patentable for analogous reasons.

D. The "motivation to combine" recited in the Office Action is implausible

As discussed in section IV.B at page 12, above, the purported "motivation to combine" stated in the Office Action is implausible. Applicant requests a showing of how Weatherly can be combined with Little to achieve a tax deduction in excess of 100%. In absence of such a showing, the rejection should be withdrawn.

E. Claims 54-55

Dependent claims 54-55 are dependent on claim 53 and patentable therewith, and recite further patentable features.

VII. Claims 56-59

Independent claim 56 is discussed in relation to the Little article at page 16 of the second Office Action. Claim 56 recites as follows:

> 56. A method, comprising the steps of:
>
> leasing an interest in real estate from a special purpose entity to a tenant, the special purpose entity being a legal entity owned by a landlord of the real estate that includes the leased interest, the special purpose entity owning the lease of the leased interest, development of an asset underlying the leased interest being financed by debt issued by the special purpose entity, the debt being non-recourse against the special purpose entity, the landlord and the asset.

The discussion of claim 56 in the second Office Action is identical to the discussion in the first Office Action; there is no further mention of claim 56 in the "Response to Arguments" section of the second Office Action.

A. Claim 56 is patentable for reasons discussed above

Claim 56 recites a SPE owned by the landlord (or lessor), similar to the SPE discussed above in connection with claim 31 at section V.A (page 13 of this paper).

B. The reliance on Official Notice in the discussion of claim 56 exceeds permissible reliance on Official Notice, and impermissibly attempts to shift the burden to Applicant

The second Office Action relies on Official Notice for three distinct propositions:

1. The SPE owns the lease;
2. Development of an asset underlying the lease is financed by debt issued by the SPE;
3. The debt is non-recourse against the SPE, the landlord, and the asset.

The Office Action at best attempts to show that a single phrase of claim 56 is met by the Little article, and relies on Official Notice for three. This is clearly beyond the discretion allowed the examiner (Official Notice "should not comprise the principle evidence upon which a rejection is based." MPEP § 2144.03). Such a rejection may not be made final.

Applicant traverses all reliance on Official Notice. See section III.E (page 7) of this paper.

C. The showing of "motivation to combine" is inadequate

The Office Action states that one would be motivated to combine Little with the Officially Noticed speculation "in order to minimize the risk of the special purpose entity." This is inadequate to raise a rejection.

Any showing of "motivation to combine" references must be particular to the references and claims involved – a form letter statement is insufficient to raise a rejection. *Crown Operations Int'l v. Solutia, Inc.*, 289 F.3d 1367, 1376, 62 USPQ2d 1917, 1922 (Fed. Cir. 2002) ("There must be a teaching or suggestion within the prior art ... to look to particular sources, to select particular elements, and to combine them as combined by the inventor," emphasis added); *In re Lee*, 277 F.3d 1338, 1343, 61 USPQ2d 1430, 1433 (Fed. Cir. 2002) ("The need for specificity pervades [Federal Circuit obviousness caselaw]"); *In re Kotzab*, 217 F.3d 1365, 1371, 55 USPQ2d 1313, 1317 (Fed. Cir. 2000) ("particular findings must be made as to the reason the skilled artisan ... would have selected these components for combination in the manner claimed," emphasis added); *In re Dembiczak*, 175 F.3d 994, 999, 50 USPQ2d 1614, 1617 (Fed. Cir. 1999) (the showing of combinability must be "clear and particular," emphasis added); *Dembiczak*, 175 F.3d at 1000, 50 USPQ2d at 1617 (broad conclusory statements about the teaching of references are not "substantial evidence" on which a rejection can be affirmed).

It is the Examiner's duty to clearly state precisely the combination of apparatus to be assembled from the references; it is not an Applicant's duty to guess what could be done with the references. *Ex parte Gambogi*, 62 USPQ 209, 1213 (Bd. Pat. App. & Interf. 2001) ("It is not an applicant's responsibility to set out a clear and concise rejection ... setting out a rejection is the responsibility of the examiner").

The Office Action fails to meet these minimum requirements.

First, it is not clear what "combination" is being proposed by the Office Action. There is no clear statement in the Office Action of how Little could be modified so that "the special purpose entity [owns] the lease of the leased interest, development of an asset underlying the leased interest being financed by debt issued by the special purpose entity, the debt being non-recourse against the special purpose entity, the landlord and the asset." An applicant ought not be asked to guess. If any rejection is maintained, Applicant requests a particular showing – what particular contractual relationships are created by the proposed modification or combination? How would a lender be assured of repayment if the debt is "non-recourse against the special purpose entity, the landlord and the asset?"

Second, the Office Action fails to state any motivation for the particular combination. How would the risk of the special purpose entity be minimized, and why would that be desirable? Applicant notes that it is typical to structure a transaction to isolate risk into the SPE, in order to reduce risk for the other transaction parties. If minimizing risk for the SPE is somehow a motivation, a showing should be made that the prior art recognized the motivation, and that the prior art taught a mechanism for doing so.

In absence of a particularized showing of motivation to combine, no obviousness rejection exists.

D. Claims 1, 5, 32, 57-59, 80, 105

Claim 58 recites limitations that are not recited in claim 7. The reliance on the rejection of claim 7 renders the rejection of claim 58 incomplete.

Claims 1, 5, 32, 80 and 105 recite limitations analogous to those of claim 56, and are patentable for analogous reasons. Claims 57-59 are dependent on claim 56, and are patentable therewith, and recite further patentable limitations.

VIII. Claim 60-73

Independent claim 60 is discussed in connection with the Little article at pages 2, 17-18 and 37, respectively, of the second Office Action. Claim 60 recites as follows:

> 60. A method, comprising the steps of:
>
> leasing a longer-lived asset and a shorter-lived asset to a lessee under two separate leases, rent payments under the lease of the shorter-lived asset having a present value at least equal to a cost of the shorter-lived asset at a time of commencement of the lease of the shorter-lived asset;
>
> the lease to the shorter-lived asset being structured together with the lease to the longer-lived asset to support an accounting conclusion that the two leases are to be considered together as a single lease, classified as an operating lease.

Claim 60 is patentable over Little for two reasons.

A. Claim 60 recites two "separate" leases

Independent claim 60 recites two "separate" leases. This claim limitation is analogous to the two "distinct" leases of claim 2, and claim 60 is therefore patentable for reasons similar to those discussed above in connection with claim 2 (see section III.A, page 3).

B. Improper reliance on Official Notice for the claim language "rent payments [being] at least equal to a cost" of an asset

Page 18 of the second Action states:

> However, Little does not explicitly disclose wherein the shorter-lived asset having a present value at least equal to the cost of the shorter-lived asset at the time of commencement of the lease of the shorter-lived asset. Official Notice is taken that this step is old and well known within the lease art.

Applicant traverses the reliance on Official Notice.

First, reliance on Official Notice was seasonably traversed, and is improper in this second Office Action. See section III.E at page 7. Applicant specifically traverses reliance on Official Notice for the proposition that "rent payments under the lease of the shorter-lived asset having a present value at least equal to a cost of the shorter-lived asset at a time of commencement of the lease of the shorter-lived asset" is known in the art. Applicant traverses the reliance on Official Notice pursuant to 37 C.F.R. § 1.104(d)(2), and calls for a reference or affidavit.

Second, the proposition Officially Noticed has nothing to do with the claim. Claim 60 recites:

> 60. A method, comprising the steps of:
>
> leasing a longer-lived asset and a shorter-lived asset to a lessee under two separate leases, **rent payments** under the lease of the shorter-lived asset having a present value at least equal to a cost of the shorter-lived asset at a time of commencement of the lease of the shorter-lived asset;
>
> the lease to the shorter-lived asset being structured together with the lease to the longer-lived asset to support an accounting conclusion that the two leases are to be considered together as a single lease, classified as an operating lease.

The present value of "rent payments," as recited in the claim, is a completely different thing than the present value of "the shorter-lived asset" as discussed in the Office Action. Even if the "fact" Officially Noticed were true, it would be irrelevant to the patentability of the claim.

Third, the proposition recited in the claim is at best very uncommon in the lease art. The claim recites that the present value of the rent payments is "at least equal" to the value of the asset – that is, the tenant's rent payments are greater than or equal to the payments he would make to purchase. This essentially never happens in the lease art. If a tenant "leases" a property, he must return the property to the landlord at the end of the lease. If the tenant instead buys the property, he still owns the property at the time the lease would have ended. If the lease payments are more than the purchase payments, no tenant would ever lease.

There is no rejection of claim 60, and none could be raised based on the Little reference.

C. Inadequate showing of "motivation to combine"

Applicant traverses the rejection of claim 60, on the basis that no genuine "motivation to combine" the Little reference with the Officially Noticed limitation has been shown. Mere incantation of generalities like "flexibility" is not a substitute for the particular showings that are required by MPEP § 2143-2143.03. Applicant requests (a) a description of the result of combining the "present value" technique recited in claim 60 with Little, (b) identification of some particular "flexibility" provided by the combination, (c) a showing that this "flexibility" is made possible by the combination, and is not present in Little alone, and (d) a showing of "reasonable expectation of success" for the combination.

D. Claims 1, 20, 34, 35, 57, 61-73, 95, 115

The rejection of claim 63 is too garbled to be understood. Is it based on explicit teaching, or Official Notice? Without some clear indication of the basis of the rejection, final rejection is premature.

Claims 1, 20, 34, 35, 57, 95, 115 recite limitations analogous to those of claim 60, and are patentable for reasons analogous to those discussed above. Claims 61-73 are dependent on claim 60, and patentable therewith, and recite further patentable limitations.

IX. Claim 74-92

Independent claim 74 is discussed at page 5 of the second Office Action. Claim 74 recites as follows:

> 74. A method, comprising the steps of:
>
> leasing tenant improvements within a space from a special purpose entity to a tenant, the special purpose entity being a legal entity owned by a landlord of the space, the special purpose entity being capitalized by participations comprising: (a) an equity investment by the landlord of at least three percent of the value of the tenant improvements and (b) debt issued by the special purpose entity for at least about eighty percent of the value of the tenant improvements.

The discussion of claim 74 in the second Office Action is identical to the discussion in the first Office Action; there is no further mention of claim 74 in the "Response to Arguments" section of the second Office Action.

A. The SPE is owned by the landlord

Claim 74 recites an SPE that is "owned" by the landlord. This limitation renders claim patentable over the Little reference, as discussed above in connection with claim 31 at section V.A (page 13 of this paper).

B. "debt issued by the special purpose entity for at least about eighty percent of the value of the tenant improvements"

Claim 74 recites "debt issued by the special purpose entity for at least about eighty percent of the value of the tenant improvements." At page 3, the second Office Action compares this language to page 4, lines 42-45 of the Little reference, which read as follows:

> In addition, ETT 97-1 describes the circumstances in which the lease arrangement can include defaults that are not related to the lessee's use of the property, such as defaults based on financial performance.

The relationship between the claim and this portion of Little is not understood. "Defaults" are the conditions in which a tenant will be held in breach of the lease contract, and for which the landlord acquires the right to evict the tenant. "Debt" is money that a borrower owes to a lender. The pertinence of one to the other is not apparent, and without an explanation as required by Rule 104(c)(2), no rejection exists.

There is no anticipation of claim 74 by Little.

C. Claims 1, 7, 36, 58, 63, 65, 75-92

Claims 1, 7, 36, 58, 63 and 65 recite limitations analogous to those of claim 60, and are patentable for reasons analogous to those discussed above. Claims 75-92 are dependent on claim 74, and patentable therewith, and recite further patentable limitations.

X. Claims 93-101

Independent claim 93 is discussed in relation to the Little article at page 5 of the second Office Action. Claim 93 reads as follows:

> 93. A method, comprising the steps of:
>
> leasing an interest in a space from a special purpose entity to a tenant, the special purpose entity being a legal entity owned by a landlord of the building including the space, the building being divided for lease to multiple tenants, at least about 80% of the capitalization of the special purpose entity being a loan to the special purpose entity secured by an absolute obligation of the tenant.

The discussion of claim 93 in the second Office Action is identical to the discussion in the first Office Action; there is no further mention of claim 93 in the "Response to Arguments" section of the second Office Action.

A. SPE is owned by the landlord

Claim 93 recites a SPE owned by the landlord (or lessor), similar to the SPE discussed above in connection with claim 31 at section V.A (page 13 of this paper).

B. "at least about 80% of the capitalization of the special purpose entity being a loan to the special purpose entity secured by an absolute obligation of the tenant"

Claim 93 recites "debt issued by the special purpose entity for at least about eighty percent of the value of the tenant improvements." At page 5, the second Office Action compares this language to page 4, lines 42-45 of the Little reference, which read as follows:

> In addition, ETT 97-1 describes the circumstances in which the lease arrangement can include defaults that are not related to the lessee's use of the property, such as defaults based on financial performance.

The relationship between the claim and this portion of Little is not understood. "Defaults" are the conditions in which one party to the lease will be held in default on the lease. When one party is "in default," the non-defaulting party acquires the right to terminate the lease. "Debt" is money that a borrower owes to a lender. The two have nothing to do with each other.

There is no anticipation of claim 93 by Little.

C. Claims 1, 8, 37, 67, 75, 94-101, 108

Claims 1, 8, 37, 67, 75, and 108 recite limitations analogous to those of claim 93, and are patentable for reasons analogous to those discussed above. Claims 94-101 are dependent on claim 93, and patentable therewith, and recite further patentable limitations.

XI. Claims 102-118

Independent claim 102 is discussed in connection with the Little article at page 34-35 of the second Action. Claim 102 recites as follows:

> 102. A method, comprising the steps of:
>
> improving a space, financing for the improvements being provided by an entity other than a tenant of the space, financing for the tenant improvements being obtained at the tenant's cost of funds;
>
> leasing the space from a landlord to the tenant under a space lease; and
>
> leasing the improvements to the tenant under an improvements lease distinct from the space lease.

A. The written rejection is too vague to permit a response

The second Action designates page 3, lines 28-33, page 6, lines 21-34 and page 4, lines 35-40 of the Little reference as the "part relied on," but provides no "explanation" of the

"pertinence" the reference to any claim limitation, as required by 37 C.F.R. § 1.104(c)(2). These portions of Little read as follows:

Page 3, lines 28-33:

> --There can be no automatic transfer of title to the lessee at the end of the lease term.
>
> --Any option to purchase the property by the lessee cannot be at a "bargain" purchase price.
>
> --The term of the lease cannot be 75 per cent or more of the economic useful life of the leased property.

Page 6, lines 21-34:

> HOW ARE THE LOAN AND EQUITY INVESTMENTS STRUCTURED?--As noted above, the lessor enters into loan arrangements and obtains equity investments to fund the acquisition and construction of the property. In the typical leveraged-lease structure, a lender or group of lenders makes a loan to the lessor on a nonrecourse basis.
>
> The debt normally is divided into two tranches:
>
> --An A-tranche, which is structured to be repaid by the "contingent rent payment" described above in the event the lessee elects not to purchase the property; and
>
> --A B-tranche, the holders of which are entitled to a priority payment from the sale of the property.
>
> The A-tranche is in an amount equal to the contingent rent amount, usually about 85 per cent of the facility cost. The B-tranche generally is equal to 12 per cent of such cost. The equity investment makes up the remaining three per cent.

Page 4, lines 35-40:

> [EITF 96-21] provides that structuring fees paid by the lessee to the owners of the lessor must be taken into account for the purposes of applying the 90 per cent test under SFAS No. 13.
>
> EITF 97-1
>
> EITF 97-1 limits the circumstances in which the lessee can indemnify the lessor for pre-existing environmental conditions.

The correspondence between the claim terms and these portions of the Little reference is not apparent. Pursuant to 37 C.F.R. § 1.104(c)(2), Applicant requests that "The pertinence of each

reference [be] clearly explained and each rejected claim specified." Without a showing of "pertinence," no rejection exists.

B. "distinct leases"

Independent claim 102 recites two "distinct" leases, and is therefore patentable for reasons similar to those discussed above in connection with claim 2.

C. "Motivation to combine" the references

Applicant traverses the rejection of claim 102, on the basis that no sound "motivation to combine the references" has been shown, for reasons analogous to those discussed above in section VIII.C. Applicant requests (a) a description of the result of combining Weatherly and Little, (b) identification of some particular "flexibility" provided by the combination, (c) a showing that this "flexibility" is made possible by the combination, and is not present in either Little or Weatherly alone, and (d) a showing of "reasonable expectation of success" for the combination.

D. Claims 103-118

Claims 103-118 are dependent on claim 102, and are patentable therewith. Claims 103-118 recite further patentable limitations.

XII. Other defects in the Office Action render the rejections incomplete and prevent final rejection

The obviousness rejections of claims 11-27, 32-35, 38-52, 57-66, 68-73, 77-80, 82-92 and 94-101 all take Official Notice of some fact, and then argue that it would have been obvious to combine that fact with one or two references because the combination is desirable. Similarly, the obviousness rejections of claims 8-10, 37, 67, 75, 76, 81 state only that certain facts were known bit by bit in two or more prior art references, but these rejections make no showing of "motivation to combine" those references.

This analysis differs from the analysis outlined at MPEP § 2142-2144.09, and is thus impermissible. In particular, MPEP § 2143.01 cautions that "motivation to combine" must be shown from the prior art. Any recognition of what would be desirable that arises during

examination, by definition, comes into being only long after an applicant's filing date. "Common sense" is not prior art. *In re Zurko*, 258 F.3d 1379, 1385, 59 USPQ2d 1693, 1697 (Fed. Cir. 2001) ("the Board cannot simply reach conclusion based on its own understanding or experience—or on its assessment of what would be basic knowledge or common sense. Rather, the Board must point to some concrete evidence in the record in support of these findings.") As such, an examiner's common sense is not prior art – it is impermissible "hindsight," and not proper "motivation to combine."

If any obviousness rejection is raised in any future Office Action, Applicant requests that the particular "motivation to combine" relied upon in that future Action be supported with either a reference or an affidavit, as required by 37 C.F.R. § 1.104(d)(2). If such "motivation to combine" cannot be supported from the prior art, Applicant would welcome an indication of allowance.

Further, no showings of "reasonable expectation of success" are made in the second Office Action. This is a necessary component of every *prima facie* obviousness rejection. MPEP § 2143. Because the Office Action makes no attempt to raise a *prima facie* case of obviousness, no burden has shifted to Applicant. No claim is rejected for obviousness.

XIII. Conclusion

In view of the amendments and remarks, Applicant respectfully submits that the claims are in condition for allowance. Applicant requests that the application be passed to issue in due course. The Examiner is urged to telephone Applicant's undersigned counsel at the number noted below if it will advance the prosecution of this application, or with any suggestion to resolve any condition that would impede allowance. In the event that any extension of time is

required, Applicant petitions for that extension of time required to make this response timely. Kindly charge any additional fee, or credit any surplus, to Deposit Account 50-0675, Order No. 57634.3.

Respectfully submitted,

SCHULTE ROTH & ZABEL, LLP

Dated: March 31, 2003

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APPENDIX 2

MARKUP COPY OF TEXT TO BE ADDED TO THE SPECIFICATION

Referring to Fig. 2a, in summary, a tenant improvement lease 100 may operate with the following flow of funds. Consider first the flow of funds that occurs when the parties initially enter lease 100. In the case of existing tenant improvements to a space that the tenant holds under an existing lease, tenant 102 sells (arrow ①) the tenant improvements to special purpose entity 110. In the case of a new tenancy, special purpose entity 110 makes the funds available to tenant 102 for the tenant to build tenant improvements. In either case, the funds for special purpose entity 110 may be drawn from investors in the capital markets. Tenant 102 leases (arrow ①) the tenant improvements back from special purpose entity 110 under a "bondable" lease 100. Special purpose-entity 110 may issue (arrow ②) lease-backed bonds. Landlord 104 may hold 100% of the equity in special purpose entity 110 (arrow ③), which equity may be at least 3% of the total capitalization for the tenant improvements. Special purpose entity 110 may use the proceeds to purchase (arrow ④) the tenant improvements from tenant 102 and to pay the costs of the transaction.

The lease may generate a flow of funds on an ongoing basis as shown in Fig. 2b. Tenant 102 may make lease payments (arrow ①) through lease 100 to a bond trustee. The bond trustee may distribute principal and interest payments on the bonds to investors (arrow ②). The bond trustee may distribute (arrow ③) the remaining cash flows to the special purpose entity to meet the landlord's requirements for a return on equity on the landlord's contribution to special purpose entity 110. Special purpose entity 110 may dividend (arrow ④) any excess rent payments to landlord 104. Tenant 102 may continue to make space lease payments (arrow ⑤) to landlord 104 in the ordinary manner.